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TAGS: [ECON](#) [PINR](#) [EINV](#) [PGOV](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: (U) TAIWAN BUSINESSES OPERATING IN THE MAINLAND
(C-AL5-00385)

REF: A. TAIPEI 1511
[B](#). TAIPEI 1781
[C](#). STATE 79033

Classified By: AIT Director Douglas H. Paal, Reason 1.4 b/d

Summary

[1](#). (C) AIT/Taipei offers the following information in response to ref C regarding PRC pressure on Taiwan businesses operating in the Mainland. We have highlighted four examples of such pressure -- Chi Mei, Acer, Quanta, and Evergreen. We also note that many firms report the same kind of difficulties for reasons that are completely unrelated to domestic Taiwan political affiliation. Chi Mei is clearly an extreme case and meant to be an example to other Taiwan firms. However, the PRC has applied less severe pressure broadly to many Taiwan businesses. As a result of this strategy, the PRC has largely achieved its aim of silencing support among the Taiwan business community for President Chen Shui-bian and the Democratic Progressive Party (DPP). We expect it to continue to apply this kind of pressure and for Taiwan firms to maintain their silence. End summary.

Responses to State 79033 Questions

[2](#). (C) AIT/Taipei offers the following information on some of the specific questions asked in ref C:

[A](#). (C) Other than Chi Mei's Hsu Wen-lung, AIT/Taipei is not aware of any other Taiwan businessmen with operations in the Mainland, who have released statements denouncing Taiwan President Chen Shui-bian, the Democratic Progressive Party (DPP), Taiwan independence, or supporting the Anti-Secession Law (ASL) as a result of pressure from PRC authorities. Some other businessmen and industry organizations have made favorable comments about the ASL, but we do not have any indication that the comments were motivated by overt pressure from the PRC. Many observers have commented that in general Taiwan businessmen have responded to PRC pressure by keeping silent about political issues, and maintaining a distance from Taiwan's political parties.

[B](#). (C) Computer brand Acer's former chairman Stan Shih told the press on March 31 that he intended to resign his position as a presidential advisor to Chen Shui-bian to underscore his political neutrality. This is likely a result of PRC pressure. More information on this case is provided below. We are not aware of any other examples of Taiwan businessmen resigning from presidential advisory posts due to pressure from the PRC. Other pro-independence presidential advisors resigned in early March because they felt that Chen's 10-point consensus with the People's First Party (PFP) Chairman James Song betrayed the independence movement.

[C](#). (C) As one element of the PRC's "united front" tactics, the Chen administration sees pressure on Taiwan businessmen operating in China as a major threat to the DPP. Combined with efforts to reach out to opposition parties and isolate Taiwan diplomatically, the Chen Administration sees the PRC's actions as what one Presidential Office official described as a "non-violent full-scale attack." This perception drives the DPP's campaign strategy in recent elections to answer a perceived successful economic cooption of Taiwan's businesses by the PRC with Taiwan nationalism. The Chen Administration views the Taiwan business community on the Mainland as generally supporting the Kuomintang (KMT) and its Pan-Blue allies.

(C) However, most recently concern about pressure on Taiwan businessmen may be diminishing slightly. Mainland Affairs Council (MAC) Chief Secretary Jan Jyh-horng told AIT/T that MAC perceives a less heavy-handed approach toward Taiwan investors. He reported that in the weeks following the publication of the Hsu Wen-lung letter local officials in Fuzhou and Guangzhou had asked Taiwan businesses to sign a

letter in support of the ASL. MAC denounced these efforts, and later the request was withdrawn. Jan speculated that PRC officials had assessed that the publication of Hsu Wen-lung's letter had hurt their cause because discussion in Taiwan had focused on the PRC pressure behind the statement instead of the statement's contents. Jan told us that MAC would see attendance at the next MAC-hosted meeting of Taiwan investors as an indication of the current level and tenor of PRC pressure on Taiwan businesses. The next meeting will be held around the Dragon Boat Festival in early June.

1D. (U) AIT defers to PRC posts on Beijing's view of the Taiwan business community.

1E. (C) In general, Taiwan businessmen are reluctant to discuss political problems they may face in the Mainland because they fear it will exacerbate those problems and depress stock prices. Examples of the problems that businessmen have faced in the PRC due to their political activities include repeated questioning by PRC authorities, excessive auditing, increased tax liability, fines and unusually zealous or arbitrary enforcement of regulations, such as environmental regulations. (Note: Taiwan local and national officials sometimes employ similar means to apply political pressure on Taiwan firms. End note.) Businessmen and other observers have not described to us any positive economic incentives offered by the PRC for political reasons -- except for the elimination of unnecessary difficulties.

1F. (U) According to press reports that identify a DPP source in the Legislative Yuan, Economic Affairs Minister Ho Mei-yueh's husband works in Guangzhou for a Mitsubishi affiliate in the chemicals industry. Ho has not publicly identified her husband's employer but told the press that he was assigned to work in Guangzhou directly from Japan, not through the Taiwan affiliate.

1G. (C) AIT will forward by e-mail to EAP/TC confidential information provided by the Ministry of Economic Affairs Investment Commission on firms that have applied to the Taiwan government to invest in the Mainland.

1H. (C) Within the ASL or the PRC's consensus with KMT Vice Chairman P.K. Chiang, there are several measures that target specific sectors in Taiwan. Agriculture stands out because it would benefit economic interests in southern Taiwan that have traditionally supported the DPP and President Chen Shui-bian. Other sectors that would benefit from these proposals include the fishing industry, finance, and transportation, in addition to Taiwan investors in the Mainland. Comment: However, the entire Taiwan economy increasingly depends on its economic links with the Mainland. Even modest steps to improve cross-Straits economic relations will appeal broadly across the entire Taiwan business community. End comment.

Examples of Political Pressure...

13. (C) The following are four examples of Taiwan businesses (Chi Mei, Acer, Quanta, and Evergreen) that have faced problems in their Mainland operations due to the political views of the firms' chairmen/founders.

Chi Mei

14. (C) In early April, Chi Mei Group senior executives confirmed to AIT/K that the text of Chi Mei Founder Hsu Wen-lung's March 26 statement in support of "one China" had been dictated in full by Beijing authorities and Hsu had not requested nor negotiated any changes to the text (reported ref B). Mainland authorities had "harassed" Chi Mei's China operations for over a year with tax audits, pressure on Chi Mei customers in China to change suppliers, and other disruptive measures. However, according to the executives, Hsu Wen-lung's decision to issue his statement came only after Beijing signaled that China was prepared substantially to step up its campaign against Chi Mei, that no further Chi Mei investments in China would be allowed, and that there was a possibility that Chi Mei employees in China might be arrested. Chi Mei executives noted that, once Hsu had decided to issue his statement, Beijing had signaled its approval with confirmation that Hsu had been approved for a visa to visit Hong Kong. Chi Mei now plans to expand its operations in the Mainland with a TFT-LCD assembly plant.

Acer

15. (C) In March, Acer's then President of International Operations T.Y. Lay told AIT/T (reported ref C) that Acer had previously experienced difficulty in its Mainland

operations due to the politics of its founder Stan Shih. Lay recalled that after Taiwan President Chen Shui-bian named former Acer Chairman Stan Shih a presidential advisor at the beginning of Chen's first term, Acer's operations in the Mainland were "disrupted" on several occasions. The PRC also rejected one of Shih's visa applications. As a result, Acer and Shih have been very cautious about any appearances of political activity. As noted above, Shih announced in late March that he would resign the post of presidential advisor to underscore his political neutrality. Currently, Acer is actively expanding its operations in the Mainland and aims to double its revenue from China this year. (Note: Lay now heads Acer's Mainland operations out of Beijing. End note.)

Quanta -----

16. (C) Jason Lin, Deputy Spokesman of notebook computer manufacturer Quanta, recently confirmed to AIT/T that Quanta had been the target of some political pressure from the PRC. Lin said that in early 2004 before Taiwan's presidential election Quanta's founder and chairman Barry Lam had publicly said that he hoped Chen Shui-bian would be re-elected. According to Lin, Lam's true political preferences tend toward support of the Pan-Blue camp, and he had misspoken while trying to be courteous to President Chen at a public event. As a result of these comments, Lin said that Quanta was subjected to excessive questioning by PRC officials, but no concrete sanctions were imposed. Quanta explained the circumstances of Lam's comments to PRC officials, and Lin believes the PRC authorities accepted this explanation. Lin reported that Quanta still occasionally encounters difficulties with PRC central and local government officials depending on the current state of cross-Straits relations and other local factors. However, Lin does not believe that the most recent problems are specifically aimed at Quanta for any domestic Taiwan political affiliation. Quanta now assembles nearly all of its notebook computers in the PRC.

Evergreen -----

17. (C) Evergreen Group, the transportation conglomerate that includes Evergreen Marine Transport and EVA Air has also reportedly faced difficulty in its Mainland operations. Evergreen has long had connections with Chen Shui-bian, who once did legal work for the group. However, a few years ago the group publicly cut off political support to the DPP. In November 2003, Group Chairman Chang Yung-fa criticized President Chen for not supporting direct shipping links with the Mainland. In March 2004 Chang publicly supported the KMT's Lien Chan in the presidential election and urged Evergreen employees to vote for him. In May 2004, Chen dropped Chang as a presidential advisor. Since then the group has been successful at dramatically expanding its Mainland operations. In June 2004, Chairman Chang visited the PRC and toured harbors in Dalian and Pudong, Shanghai. This year its Italian subsidiary was approved to invest in two berths in Ningbo Harbor near Shanghai. In addition, the PRC authorized the same subsidiary to open a branch office in Shenzhen, the first for a Taiwan shipping firm.

Other Problems -----

18. (C) Many observers point out that Taiwan firms operating in the Mainland frequently encounter difficulties with PRC officials that are not related to Taiwan political affiliation. Tsai Horng-ming, Deputy Secretary General of the Chinese National Federation of Industries (CNFI) noted that the problems many Taiwan firms encounter in the Mainland are the result of local PRC political issues, not central government pressure to oppose pro-independence forces in Taiwan. Quanta's Lin noted that many of the difficulties Quanta had faced seemed to have been caused by local government efforts to improve their fiscal situation. He also commented that some pressure is directed at Taiwan firms in general depending on the state of cross-Straits relations with no bearing on whether the firm is perceived to be a Pan-Blue or Pan-Green supporter.

Limited Action, Broad Pressure -----

19. (C) It appears that the case of PRC pressure applied to Chi Mei's Hsu Wen-lung is the extreme in PRC treatment of Taiwan investors in the Mainland in that the firm was subjected to real economic consequences. Micky M.C. Chen, Chairman of the Taiwan Businessman Consulting Group, told us that Hsu was targeted as an example because of Chi Mei's size and his vocal support of Chen. CNFI's Tsai cited the Chinese proverb "kill the rooster, scare the monkey" to explain the PRC's strategy of using Chi Mei as a high profile example. Both believe that the PRC has rarely used

real economic sanctions like those used against Chi Mei to pressure Taiwan businesses because of Taiwan political affiliation.

110. (C) Nevertheless, AIT/T contacts in Taiwan confirm that the PRC authorities regularly question Taiwan firms on their political activities, remind them of the consequences of supporting Taiwan independence, and ask that they publicly reject independence. As Chinese National Association of Industry and Commerce Deputy Secretary General George T. Lin described, PRC authorities try to "knock on the door" of all Taiwan investors in the Mainland to secure support for their political agenda. As noted above, MAC's Jan described examples of PRC authorities asking large groups of Taiwan businessmen to sign an endorsement of the ASL.

Comment - Big Impact

111. (C) With limited use of real sanctions, but broad application of pressure, the PRC has managed to achieve many of its aims. Taiwan firms are now very reluctant to advertise any political affiliation, much less support for the Pan-Green camp. The PRC has managed to force high-profile Taiwan businessmen to actively distance themselves from the Chen administration. Many Taiwan businessmen feel they must compete in the Mainland market to survive and are willing to sacrifice political principles to do so. PRC authorities are aware of this. Hsu Wen-lung's letter shows that they are willing to use this leverage. However, if the observations of MAC's Jan prove correct, the PRC may have come to realize that it cannot push to far. We expect a continuation of this measured application of pressure on Taiwan businesses. We also expect Taiwan firms to comply with very minimal public protest as they continue to expand their presence in the PRC. End comment.
PAAL